

Revised Texas Franchise Tax



Susan Combs
Texas Comptroller
of Public Accounts

Total Revenue

Texas Tax Code §171.1011
Rule 3.587

Presented by: Franchise Tax Policy Staff
Organizer: Janet Spies
Panelists: Teresa Bostick, Claire Jamal, Jerry Oxford,
Jennifer Specchio, and Bill York

Total Revenue...

... is the starting point for computing the Revised Franchise Tax.

It is the:

- first component in determining a taxable entity's margin.
- threshold for a no tax due qualification.
- threshold to determine if an entity qualifies for the E-Z Computation.
- threshold for determining discounts.

Total Revenue...

... “amount reportable as income on a line number on an Internal Revenue Service form is the amount entered to the extent the amount entered complies with federal income tax law” 171.1011(b).

Total Revenue...

Annualized Revenue

Total Revenue must be annualized to determine eligibility for \$300,000 No Tax Due threshold, Discounts, and E-Z Computation.

Formula:

(Total Revenue / # days in period upon which the tax is based) x 365 (366 in leap years) = Annualized Revenue

Examples:

1. A taxable entity's 2008 franchise tax report is based on the period 09/15/2007 through 12/31/2007 (108 days) and its total revenue for the period is \$50,000. The taxable entity's annualized revenue is \$168,981 (\$50,000 divided by 108 days times 365 days).
2. A taxable entity's 2008 franchise tax report is based on the period 01/01/2006 through 12/31/2007 (730 days) and its total revenue for the period is \$1,500,000. The taxable entity's annualized revenue is \$750,000 (\$1,500,000 divided by 730 days times 365 days).

Total Revenue...

Case Study:

Travel agent sells airplane ticket to customer for \$1,000. Agent pays airline \$900 and retains \$100 as a commission.*

Questions:

- What is the appropriate amount of revenue to be reported for federal income tax reporting?
- Should line 1c of the form 1120 show \$1,000 as the sales price – since it was the amount invoiced to the customer?
- OR should the agent report only \$100 on line 1c?

* Note: There is no exclusion from revenue for the \$900 paid to the airline.

Total Revenue - Corporation

For a corporation, total revenue begins with the amounts entered on:

- Form 1120, line 1c plus lines 4 through 10

Form 1120 Department of the Treasury Internal Revenue Service		U.S. Corporation Income Tax Return For calendar year 2006 or tax year beginning _____, 2006, ending _____, 20 ____ ▶ See separate instructions.		OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold;">2006</div>		
A Check if: 1 Consolidated return (attach Form 851) <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 required (attach Sch. M-3) <input type="checkbox"/>		Use IRS label. Otherwise, print or type. Name _____ Number, street, and room or suite no. If a P.O. box, see instructions. _____ City or town, state, and ZIP code _____		B Employer identification number _____ C Date incorporated _____ D Total assets (see instructions) \$ _____		
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change						
Income	1a	Gross receipts or sales	b Less returns and allowances	c Bal ▶	1c	
	2	Cost of goods sold (Schedule A, line 8)			2	
	3	Gross profit. Subtract line 2 from line 1c			3	
	4	Dividends (Schedule C, line 19)			4	
	5	Interest			5	
	6	Gross rents			6	
	7	Gross royalties			7	
	8	Capital gain net income (attach Schedule D (Form 1120))			8	
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			9	
	10	Other income (see instructions—attach schedule)			10	
	11	Total income. Add lines 3 through 10			11	
	12	Compensation of officers (Schedule E, line 4)			12	

Total Revenue - Partnership

For a partnership filing a form 1065, total revenue begins with the sum of:

- Form 1065, page 1, line 1c plus lines 4, 6, and 7;
- Form 1065, Sch. K, lines 3a and 5 though 11;

Form 1065 Department of the Treasury Internal Revenue Service		U.S. Return of Partnership Income For calendar year 2006, or tax year beginning 2006, ending 20..... ▶ See separate instructions.		OMB No. 1545-0099 2006	
A Principal business activity	Use the IRS label. Otherwise, print or type.	Name of partnership		D Employer identification number	
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see the instructions.		E Date business started	
C Business code number		City or town, state, and ZIP code		F Total assets (see the instructions) \$	
G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return					
H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶					
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶					
J Check if Schedule M-3 required (attach Schedule M-3) <input type="checkbox"/>					
Caution. Include only trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.					
Income	1a Gross receipts or sales	1a		1c	
	b Less returns and allowances	1b			
	2 Cost of goods sold (Schedule A, line 8)			2	
	3 Gross profit. Subtract line 2 from line 1c			3	
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement).			4	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))			5	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			6	
	7 Other income (loss) (attach statement)			7	
8 Total income (loss). Combine lines 3 through 7			8		
9a Salaries and wages (other than to partners) (less employment credits)					

Form 1065 (2006)		
Schedule K Partners' Distributive Share Items		
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)	
	2 Net rental real estate income (loss) (attach Form 8825)	
	3a Other gross rental income (loss)	3a
	b Expenses from other rental activities (attach statement)	3b
	c Other net rental income (loss). Subtract line 3b from line 3a	3c
	4 Guaranteed payments	4
	5 Interest income	5
	6 Dividends: a Ordinary dividends	6a
	b Qualified dividends	6b
	7 Royalties	7
	8 Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8
9a Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a	
b Collectibles (28%) gain (loss)	9b	
c Unrecaptured section 1250 gain (attach statement)	9c	
10 Net section 1231 gain (loss) (attach Form 4797)	10	
11 Other income (loss) (see instructions) Type ▶	11	

AND

Total Revenue - Partnership

- Form 8825, line 17;
- Form 1040, Schedule F, line 11 plus line 2 or line 45.

Form 8825 (Rev. December 2000) Department of the Treasury Internal Revenue Service		Rental Real Estate Income and Partnership or an S Corp ▶ See instructions on back. ▶ Attach to Form 1065, Form 1065-B, or Form 1065-C		SCHEDULE F (Form 1040) Department of the Treasury Internal Revenue Service (99)		Profit or Loss From Farming ▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B. ▶ See instructions for Schedule F (Form 1040).		OMB No. 1545-0074 2006 Attachment Sequence No. 14																																																																													
Name _____				Name of proprietor _____		Social security number (SSN) _____																																																																															
1 Show the kind and location of each property. See page 2 to list additions.				A Principal product. Describe in one or two words your principal crop or activity for the current tax year.		B Enter code from Part IV																																																																															
A _____				C Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual		D Employer ID number (EIN), if any																																																																															
B _____				E Did you "materially participate" in the operation of this business during 2006? If "No," see page F-2 for limit on passive losses. <input type="checkbox"/> Yes <input type="checkbox"/> No																																																																																	
C _____				Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 11.) Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.																																																																																	
D _____				<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>1 Sales of livestock and other items you bought for resale</td> <td>1</td> <td></td> <td></td> <td></td> </tr> <tr> <td>2 Cost or other basis of livestock and other items reported on line 1</td> <td>2</td> <td></td> <td></td> <td></td> </tr> <tr> <td>3 Subtract line 2 from line 1</td> <td></td> <td></td> <td></td> <td>3</td> </tr> <tr> <td>4 Sales of livestock, produce, grains, and other products you raised</td> <td></td> <td></td> <td></td> <td>4</td> </tr> <tr> <td>5a Cooperative distributions (Form(s) 1099-PATR)</td> <td>5a</td> <td></td> <td></td> <td>5b Taxable amount</td> </tr> <tr> <td>6a Agricultural program payments (see page F-3)</td> <td>6a</td> <td></td> <td></td> <td>6b Taxable amount</td> </tr> <tr> <td>7 Commodity Credit Corporation (CCC) loans (see page F-3):</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>a CCC loans reported under election</td> <td></td> <td></td> <td></td> <td>7a</td> </tr> <tr> <td>b CCC loans forfeited</td> <td>7b</td> <td></td> <td></td> <td>7c Taxable amount</td> </tr> <tr> <td>8 Crop insurance proceeds and federal crop disaster payments (see page F-3):</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>a Amount received in 2006</td> <td>8a</td> <td></td> <td></td> <td>8b Taxable amount</td> </tr> <tr> <td>c If election to defer to 2007 is attached, check here <input type="checkbox"/></td> <td></td> <td></td> <td></td> <td>8d</td> </tr> <tr> <td>9 Custom hire (machine work) income</td> <td></td> <td></td> <td></td> <td>9</td> </tr> <tr> <td>10 Other income, including federal and state gasoline or fuel tax credit or refund (see page F-3)</td> <td></td> <td></td> <td></td> <td>10</td> </tr> <tr> <td>11 Gross income. Add amounts in the right column for lines 3 through 10. If you use the accrual method, enter the amount from Part III, line 51</td> <td></td> <td></td> <td></td> <td>11</td> </tr> </table>						1 Sales of livestock and other items you bought for resale	1				2 Cost or other basis of livestock and other items reported on line 1	2				3 Subtract line 2 from line 1				3	4 Sales of livestock, produce, grains, and other products you raised				4	5a Cooperative distributions (Form(s) 1099-PATR)	5a			5b Taxable amount	6a Agricultural program payments (see page F-3)	6a			6b Taxable amount	7 Commodity Credit Corporation (CCC) loans (see page F-3):					a CCC loans reported under election				7a	b CCC loans forfeited	7b			7c Taxable amount	8 Crop insurance proceeds and federal crop disaster payments (see page F-3):					a Amount received in 2006	8a			8b Taxable amount	c If election to defer to 2007 is attached, check here <input type="checkbox"/>				8d	9 Custom hire (machine work) income				9	10 Other income, including federal and state gasoline or fuel tax credit or refund (see page F-3)				10	11 Gross income. Add amounts in the right column for lines 3 through 10. If you use the accrual method, enter the amount from Part III, line 51				11	
1 Sales of livestock and other items you bought for resale	1																																																																																				
2 Cost or other basis of livestock and other items reported on line 1	2																																																																																				
3 Subtract line 2 from line 1				3																																																																																	
4 Sales of livestock, produce, grains, and other products you raised				4																																																																																	
5a Cooperative distributions (Form(s) 1099-PATR)	5a			5b Taxable amount																																																																																	
6a Agricultural program payments (see page F-3)	6a			6b Taxable amount																																																																																	
7 Commodity Credit Corporation (CCC) loans (see page F-3):																																																																																					
a CCC loans reported under election				7a																																																																																	
b CCC loans forfeited	7b			7c Taxable amount																																																																																	
8 Crop insurance proceeds and federal crop disaster payments (see page F-3):																																																																																					
a Amount received in 2006	8a			8b Taxable amount																																																																																	
c If election to defer to 2007 is attached, check here <input type="checkbox"/>				8d																																																																																	
9 Custom hire (machine work) income				9																																																																																	
10 Other income, including federal and state gasoline or fuel tax credit or refund (see page F-3)				10																																																																																	
11 Gross income. Add amounts in the right column for lines 3 through 10. If you use the accrual method, enter the amount from Part III, line 51				11																																																																																	
Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses such as taxes, insurance, or repairs on your home.																																																																																					
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>Rental Real Estate Income</td> <td></td> <td>A</td> <td>B</td> </tr> <tr> <td>2 Gross rents</td> <td>2</td> <td></td> <td></td> </tr> <tr> <td>Rental Real Estate Expenses</td> <td></td> <td></td> <td></td> </tr> <tr> <td>3 Advertising</td> <td>3</td> <td></td> <td></td> </tr> <tr> <td>4 Auto and travel</td> <td>4</td> <td></td> <td></td> </tr> <tr> <td>5 Cleaning and maintenance</td> <td>5</td> <td></td> <td></td> </tr> <tr> <td>6 Commissions</td> <td>6</td> <td></td> <td></td> </tr> <tr> <td>7 Insurance</td> <td>7</td> <td></td> <td></td> </tr> <tr> <td>8 Legal and other professional fees</td> <td>8</td> <td></td> <td></td> </tr> <tr> <td>9 Interest</td> <td>9</td> <td></td> <td></td> </tr> <tr> <td>10 Repairs</td> <td>10</td> <td></td> <td></td> </tr> <tr> <td>11 Taxes</td> <td>11</td> <td></td> <td></td> </tr> <tr> <td>12 Utilities</td> <td>12</td> <td></td> <td></td> </tr> <tr> <td>13 Wages and salaries</td> <td>13</td> <td></td> <td></td> </tr> <tr> <td>14 Depreciation (see instructions)</td> <td>14</td> <td></td> <td></td> </tr> <tr> <td>15 Other (list) ▶</td> <td>15</td> <td></td> <td></td> </tr> <tr> <td>16 Total expenses for each property. Add lines 3 through 15</td> <td>16</td> <td></td> <td></td> </tr> <tr> <td>17 Total gross rents. Add gross rents from line 2, columns A through H</td> <td>17</td> <td></td> <td></td> </tr> <tr> <td>18 Total expenses. Add total expenses from line 16, columns A through H</td> <td>18</td> <td>(</td> <td>)</td> </tr> </table>				Rental Real Estate Income		A	B	2 Gross rents	2			Rental Real Estate Expenses				3 Advertising	3			4 Auto and travel	4			5 Cleaning and maintenance	5			6 Commissions	6			7 Insurance	7			8 Legal and other professional fees	8			9 Interest	9			10 Repairs	10			11 Taxes	11			12 Utilities	12			13 Wages and salaries	13			14 Depreciation (see instructions)	14			15 Other (list) ▶	15			16 Total expenses for each property. Add lines 3 through 15	16			17 Total gross rents. Add gross rents from line 2, columns A through H	17			18 Total expenses. Add total expenses from line 16, columns A through H	18	()						
Rental Real Estate Income		A	B																																																																																		
2 Gross rents	2																																																																																				
Rental Real Estate Expenses																																																																																					
3 Advertising	3																																																																																				
4 Auto and travel	4																																																																																				
5 Cleaning and maintenance	5																																																																																				
6 Commissions	6																																																																																				
7 Insurance	7																																																																																				
8 Legal and other professional fees	8																																																																																				
9 Interest	9																																																																																				
10 Repairs	10																																																																																				
11 Taxes	11																																																																																				
12 Utilities	12																																																																																				
13 Wages and salaries	13																																																																																				
14 Depreciation (see instructions)	14																																																																																				
15 Other (list) ▶	15																																																																																				
16 Total expenses for each property. Add lines 3 through 15	16																																																																																				
17 Total gross rents. Add gross rents from line 2, columns A through H	17																																																																																				
18 Total expenses. Add total expenses from line 16, columns A through H	18	()																																																																																		

Total Revenue – S Corporation

Total revenue begins with the sum of:

- Form 1120S, Line 1(c) plus lines 4 & 5
- Form 1120S, Schedule K, lines 3a and 4 through 10
- Form 8825, line 17

Form 1120S U.S. Income Tax Return for an S Corporation
 Department of the Treasury Internal Revenue Service
 For calendar year 2006 or tax year beginning , 2006, ending
 A Effective date of S election
 B Business activity code number (see instructions)
 Use IRS label. Otherwise, print or type.
 Name
 Number, street, and room or suite no. If a P.O. box, see instructions.
 City or town, state, and ZIP code
 F Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change
 G Enter the number of shareholders in the corporation at the end of the tax year
 H Check if Schedule M-3 is required (attach Schedule M-3)
 Caution. Include only trade or business income and expenses on lines 1a through 21. See the instructions for
 1a Gross receipts or sales 1b Less returns and allowances 1c Bal
 2 Cost of goods sold (Schedule A, line 8)
 3 Gross profit. Subtract line 2 from line 1c
 4 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)
 5 Other income (loss) (see instructions—attach statement)
 6 Total income (loss). Add lines 3 through 5
 7 Compensation of officers
 8 Advertising
 9 Auto and travel
 10 Cleaning and maintenance
 11 Commissions
 12 Insurance
 13 Legal and other professional fees
 14 Interest
 15 Repairs
 16 Taxes
 17 Utilities
 18 Wages and salaries
 19 Depreciation (see instructions)
 20 Other (list)
 21 Total expenses for each property. Add lines 3 through 15
 22 Total gross rents. Add gross rents from line 2, columns A through D
 23 Total expenses. Add total expenses from line 21, columns A through D

Form 8825 (Rev. December 2000)
 Department of the Treasury Internal Revenue Service
 Name
 1 Show the kind and location of each property.
 A
 B
 C
 D
 Rental Real Estate Income
 2 Gross rents
 Rental Real Estate Expenses
 3 Advertising
 4 Auto and travel
 5 Cleaning and maintenance
 6 Commissions
 7 Insurance
 8 Legal and other professional fees
 9 Interest
 10 Repairs
 11 Taxes
 12 Utilities
 13 Wages and salaries
 14 Depreciation (see instructions)
 15 Other (list)
 16 Total expenses for each property. Add lines 3 through 15
 17 Total gross rents. Add gross rents from line 2, columns A through D
 18 Total expenses. Add total expenses from line 16, columns A through D

Schedule K Shareholders' Pro Rata Share Items
 Income (Loss)
 1 Ordinary business income (loss) (page 1, line 21)
 2 Net rental real estate income (loss) (attach Form 8825)
 3a Other gross rental income (loss)
 3b Expenses from other rental activities (attach statement)
 3c Other net rental income (loss). Subtract line 3b from line 3a
 4 Interest income
 5 Dividends: a Ordinary dividends
 5b Qualified dividends
 6 Royalties
 7 Net short-term capital gain (loss) (attach Schedule D (Form 1120S))
 8a Net long-term capital gain (loss) (attach Schedule D (Form 1120S))
 8b Collectibles (28%) gain (loss)
 8c Unrecaptured section 1250 gain (attach statement)
 9 Net section 1231 gain (loss) (attach Form 4797)
 10 Other income (loss) (see instructions) Type
 Total amount

Total Revenue – LLC (sole proprietor)

For a limited liability company treated as a sole proprietorship, total revenue includes any revenue that relates to the activities conducted by the LLC and begins with the sum of:

- Form 1040 Schedule C, line 3 and line 6
- Form 4797, line 17
- Form 1040, Schedule E ordinary income or loss from partnerships, S corps, estates, and trusts

SCHEDULE C (Form 1040)		Profit or Loss From Business (Sole Proprietorship)		OMB 1545-0047	
Department of the Treasury Internal Revenue Service (99)		Partnerships, joint ventures, etc., must file Form 1065 or 1065-B. Attach to Form 1040, 1040NR, or 1041. See Instructions for Schedule C (Form 1040).		2 Attach Seque	
Name of proprietor		Social security number			
A Principal business or profession, including product or service (see page C-2 of the instructions)		B Enter code from page			
C Business name. If no separate business name, leave blank.		D Employer ID number			
E Business address (including suite or room no.) City, town or post office, state, and ZIP code					
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____					
G Did you "materially participate" in the operation of this business during 2006? If "No," see page C-3 for limit on losses <input type="checkbox"/>					
H If you started or acquired this business during 2006, check here <input type="checkbox"/>					
Part I Income					
1	Gross receipts or sales. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here <input type="checkbox"/>	1			
2	Returns and allowances	2			
3	Subtract line 2 from line 1	3			
4	Cost of goods sold (from line 42 on page 2)	4			
5	Gross profit. Subtract line 4 from line 3.	5			
6	Other income, including federal and state gasoline or fuel tax credit or refund (see page C-3).	6			
7	Gross income. Add lines 5 and 6	7			
Part II Expenses. Enter expenses for business use of your home only on line 30.					
8	Advertising	8		18	Office expense

- Form 1040, Schedule D, line 16
- Form 1040, Schedule E, lines 3 and 4
- Form 1040, Schedule F, line 11, plus line 2 or 45

Total Revenue - Trust

For a trust, total revenue begins with the sum of:

- Form 1041, lines 1, 2a, 3, 4, 7, and 8
- Form 1040 Schedule E, lines 3, 4, 32, and 37
- Form 1040 Schedule F, line 11 plus line 2 or line 45

Form 1041 U.S. Income Tax Return for Estates and Trusts 2006		OMB No. 1545-0092	
A Type of entity (see instr.): For calendar year 2006 or fiscal year beginning , 2006, and ending , 20			
<input type="checkbox"/> Decedent's estate <input type="checkbox"/> Simple trust <input type="checkbox"/> Complex trust <input type="checkbox"/> Qualified disability trust <input type="checkbox"/> ESBT (S portion only) <input type="checkbox"/> Grantor type trust <input type="checkbox"/> Bankruptcy estate—Ch. 7 <input type="checkbox"/> Bankruptcy estate—Ch. 11 <input type="checkbox"/> Pooled income fund	Name of estate or trust (If a grantor type trust, see page 12 of the instructions.) Name and title of fiduciary Number, street, and room or suite no. (If a P.O. box, see page 12 of the instructions.) City or town, state, and ZIP code	C Employer identification number : : : D Date entity created E Nonexempt charitable and split-interest trusts, check applicable boxes (see page 13 of the instr.): <input type="checkbox"/> Described in section 4947(a)(1) <input type="checkbox"/> Not a private foundation <input type="checkbox"/> Described in section 4947(a)(2) <input type="checkbox"/> Change in trust's name <input type="checkbox"/> Change in fiduciary's address	
B Number of Schedules K-1 attached (see instructions) ▶	F Check applicable boxes: <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Change in fiduciary <input type="checkbox"/> Change in fiduciary's name <input type="checkbox"/> Change in fiduciary's address		
G Pooled mortgage account (see page 14 of the instructions): <input type="checkbox"/> Bought <input type="checkbox"/> Sold Date:			
Income	1 Interest income	1	
	2a Total ordinary dividends	2a	
	b Qualified dividends allocable to: (1) Beneficiaries (2) Estate or trust		
	3 Business income or (loss). Attach Schedule C or C-EZ (Form 1040)	3	
	4 Capital gain or (loss). Attach Schedule D (Form 1041)	4	
	5 Rents, royalties, partnerships, other estates and trusts, etc. Attach Schedule E (Form 1040)	5	
	6 Farm income or (loss). Attach Schedule F (Form 1040)	6	
	7 Ordinary gain or (loss). Attach Form 4797	7	
	8 Other income. List type and amount	8	
9 Total income. Combine lines 1, 2a, and 3 through 8 ▶	9		

Total Revenue – Other Entity's

The total revenue for other taxable entities will be an amount determined in a manner substantially equivalent to the amount calculated for the entities listed.

Total Revenue - Exclusions

The following can be subtracted from revenue to the extent included in the calculation of revenue:

- Bad debt expensed for federal tax purposes (related to current and previously reported receipts)
- Foreign royalties and foreign dividends (including §78, 951-964)
- Net distributive income from taxable entities treated as partnerships or S corporations (Includes income, gain, deduction, or loss of the flow through entity)
- Schedule C dividends on Form 1120
- Items of income attributable to a disregarded entity for federal tax
- Dividends and interest from federal obligations

Total Revenue – Flow Through

To the extent included in revenue, the following may be excluded:

- 1) Flow-through funds mandated by law or fiduciary duty to be distributed to others (e.g. motor fuels excise taxes).
- 2) Flow-through funds mandated by contract to be distributed to others:
 - (a) sales commissions to nonemployees including split fee real estate commissions;
 - (b) tax basis of securities underwritten;
 - (c) subcontracting payments in connection with real property or locations of boundaries of real property.

“Sales commission” includes compensation paid to a sales representative by a principal in an amount that is based on the amount or level of certain orders for or sales of the principal's product and that the principal is required to report on Internal Revenue Service Form 1099-MISC.

Total Revenue – Legal Services

To the extent included in revenue, the following may be excluded:

- amounts that must be paid to the claimant (i.e. damages);
- funds subject to a lien or other contractual obligation;
- funds subject to a subrogation interest or other third-party contractual claim;
- amounts paid to outside attorneys; and
- reimbursement of certain expenses related to a client matter.

In addition, a law firm may deduct from total revenue \$500 per pro bono case.

Total Revenue – Staff Leasing Companies

To the extent included in revenue, the following may be excluded for assigned employees:

- Wages
- Payroll taxes on those wages
- Employee benefits
- Workers' compensation benefits

Note: this applies to the staff leasing company, not the client company.

Total Revenue – Management Companies

To the extent included in revenue, the following may be excluded:

- Reimbursement of specified costs, including wages and cash compensation, incurred in its conduct of the active trade or business of the managed entity.

Note: A management company is an entity that manages the active trade or business of another entity.

Total Revenue – Health Care

Healthcare providers, to the extent included in revenue, may exclude 100 % of amounts received under:

- Medicare
- Medicaid
- Indigent Health Care & Treatment Act
- CHIP
- Workers' Compensation Claims
- TRICARE

In addition, health care providers may deduct from total revenue an amount related to uncompensated care.

Note: Healthcare Institutions may exclude 50% of the above amounts.

Total Revenue –

Tiered Partnership

Definition: a taxable entity treated as a partnership or an S corporation for federal income tax purposes (a "lower tier entity") that is owned by one or more other taxable entities (an "upper tier entity").

A lower tier entity may exclude from total revenue any amount of total revenue reported to an upper tier entity.

Tiered partnership provisions do not apply:

- if the upper tier entity is not subject to the franchise tax, the lower tier may not pass the revenue
- if the lower tier entity is included in a combined group.

Note: The no tax due thresholds, discounts and the E-Z Computation do not apply to an upper tier entity if, before the attribution of any total revenue by a lower tier entity to an upper tier entity, the lower tier entity does not meet the criteria.

Total Revenue – Passive Entities

- Determination of passive is NOT the same as the federal tax determination.
- Must be a partnership or a trust.
- Must notify the Comptroller that the entity qualifies as passive.
- Determination of passive is based on the activity in the applicable accounting period; 90% of the entity's federal gross income must be from passive activities as described in §171.0003 (i.e. interest, dividends, capital gains, etc) – rental income is not passive and cannot exceed 10% of income to qualify.

Total Revenue – Combined Groups

A combined group shall determine its total revenue by:

- determining the total revenue of each of its members as if the member were an individual taxable entity;
- adding the total revenues of the members together; and
- subtracting items of total revenue received from a member of the combined group.

Notes:

A corporation that is part of a federal consolidated return must determine its total revenue as if it had filed a separate federal income tax return.

A taxable entity that is treated as a disregarded entity for federal income tax report must determine its Total Revenue as if it had filed a separate FIT return.

Contact Us

Susan Combs
Texas Comptroller
Post Office Box 13528, Capitol Station
Austin, Texas 78711-3528

Comptroller's Website:
www.window.state.tx.us

Call toll free:
(800) 252-1381

Tax Questions:
tax.help@cpa.state.tx.us